

Guide to ESG Retirement Plan Certification

Learn how ESG Plan Certification can help employers of all sizes build stronger ESG practices into their retirement plans while continuing to meet their fiduciary responsibilities to help employees.



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Overview

Environmental, Social and Governance (ESG) investing has become a staple of modern investing. In fact, 95% of millennial investors are interested in incorporating ESG principles into their portfolio, and 85% of the general investing population feel the same way.¹

At the same time, more employers are looking to integrate ESG investment options and education into their retirement plans. Voya Financial research suggests that they could further improve employee engagement and retirement outcomes by taking a closer look at ESG practices—from paper usage to default investment options—in the plans themselves.²

In a 2020 survey by Voya, 76% of individuals indicated that it's important for their employer to apply ESG principles to workplace benefits.³ “As more companies embrace ESG values in their business models, it seems inconsistent to not also do so within their benefit plans to support employees,” says Charlie Nelson, Vice Chairman and Chief Growth Officer, Voya Financial.

“While the topic of ESG has grown in popularity over the last several years, particularly as it pertains to investments within a plan, we recognize that building strong ESG practices into workplace benefits and a retirement plan involves multiple considerations. Whether looking at digital capabilities that can reduce print consumption or plan enrollment and default investment options, there are many factors to consider when looking at ways you can incorporate ESG best practices in a retirement plan.”

Heather Lavalley,
CEO of Wealth Solutions, Voya Financial



4 ¹ Morgan Stanley Institute for Sustainable Investing, *Sustainable Signals* July 2020.

² Voya Consumer Insights and Research, July 2020.

³ Voya Consumer Insights and Research, *Consumer Sentiment During COVID-19*, July 2020.

Recognizing the growing role of ESG, DALBAR—a leading expert in the retirement industry for evaluating, auditing and rating business practices—introduced an ESG Retirement Plan Certification⁴ in late 2020. While ESG is typically talked about in the context of investment options within a plan, DALBAR’s certification focuses on how companies apply ESG principles to decisions and practices related to managing and administering those plans.

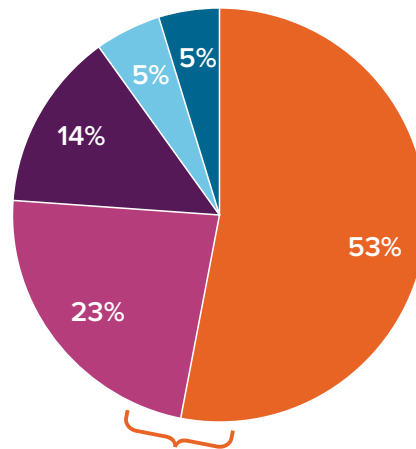
Voya was an early proponent of this certification, and in June 2021, we were the first publicly traded company to receive DALBAR’s ESG Retirement Plan Certification, earning a **five-star rating** for the 401(k) plans we provide to our own employees. Voya also provided assistance to DALBAR in developing the ESG Plan Certification. DALBAR asked Voya to participate in the data collection process and to provide feedback on the questionnaire process from a client perspective. Voya participated in a beta test for certification.

At Voya, we believe that aligning ESG principles with corporate beliefs and business practices creates value, and it is the right thing to do. ESG Retirement Plan Certification can help employers of all sizes demonstrate their commitment to sustainable business practices and optimize retirement plan design and management while improving employee engagement and long-term financial security.

ESG certification has consumer appeal*

60% of Americans say they are likely to contribute more to an ESG-certified retirement plan (This increases to 66% for younger consumers age 18–44.)

73% of Americans find the idea of ESG investing through a retirement plan appealing



76% 'Very' or 'Somewhat' appealing

Appeal of ESG investing in general

- Very appealing
- Somewhat appealing
- Neutral
- Somewhat unappealing
- Very unappealing

⁴ DALBAR, Inc., is a leading financial services market research firm that performs a variety of ratings and evaluations of practices and communications, committed to raising the standards of excellence in the financial services and healthcare industries. DALBAR is a separate entity and not a corporate affiliate of Voya Financial®. The DALBAR ESG Certification criteria fall into 3 categories: Environmental (Paper Suppression, Automatic Enrollment, Online Capabilities), Social (Premature Withdrawal Options, Matching Contributions, Phone Center Capabilities, Pre/Post Retirement Support) and Governance (Reasonable Plan Fees, Compliance with Applicable Regulations, Sound Investment Policy, Investment Review, 3rd Party Requirements). There is an annual fee for ESG Plan Certification which is uniform for all participants in the program and based on the number of participants in the plan (10,000 participants is \$5,000). The DALBAR ESG Certification does not reflect actual client experiences or outcomes and is not indicative of future performance. While Voya provided assistance to DALBAR in developing the ESG certification, Voya plays no role in the evaluation process. This fact has been disclosed to the extent it may be perceived as a possible conflict of interest.

* Voya Consumer Insights and Research, July 2020.

What the evolution of ESG means for employee benefits

ESG has evolved from a nascent category of socially responsible investing to a widely accepted, broader set of principles that incorporates environmental, social and governance factors into workplace benefits decisions. Alongside this, the ESG investment landscape has evolved in other positive ways. While investing through a sustainable lens has been believed to come with a tradeoff of lower returns, a growing body of research suggests that strong ESG practices may be indicative of positive business outcomes. (Read our related article, [5 compelling reasons diversity is good for business and organizations.](#))

Meanwhile, a growing interest in sustainability and social responsibility, particularly among younger individuals, is perpetuating the trend.

“It’s estimated that one in four dollars invested in the United States takes ESG issues into account,” says Christine Hurtsellers, CEO, Voya Investment Management. “These younger, more socially and environmentally conscious investors want their actions to bring about a positive change in the world and desire a more transparent connection to these changes. And how this generation opts to invest their money is a key part of the growth equation for ESG.”

It’s also a key part of the benefits equation for employers. While many employees are interested in ESG investment options, they are also interested in whether their retirement plans are walking the walk—and being transparent about their ESG practices.

Impact of certification on employee sentiment*

(% Very/Extremely Likely)

68%

Feel like the employer cares about serving the greater good/society at large

63%

Feel proud to work for the employer

63%

Recommend participating in the plan to other employees at the company

60%

Engage more frequently with the employer’s retirement plan/tools

DALBAR looks at retirement plans through an ESG lens

Investors and business leaders acknowledge the wisdom in the expression that you can't manage what you can't measure. To that end, companies interested in ESG understand the importance of measuring and benchmarking their ESG practices because it applies to many areas, including how they design, manage and administer their benefits.

DALBAR has earned recognition for consistent and unbiased evaluations of insurance companies, investment companies, registered investment advisers, broker-dealers, retirement plan providers and financial professionals.

With that same standard of excellence, DALBAR designed its ESG Retirement Plan Certification to reflect requirements of the Department of Labor, which administers and enforces the [Employee Retirement Income Security Act \(ERISA\)](#).

Leveraging ERISA best practices as a baseline, the certification then considers dozens of different ESG practices, among them:



Environmental factors, such as paper suppression and online capabilities



Social factors, from matching contributions to phone center capabilities



Governance, measuring things like reasonable plan fees, regulation compliance and a sound investment policy

Certified plans receive one of three different award thresholds that vary based on plan size:

- Plans that score 70% on the factors analyzed are awarded three stars (success)
- Plans that score 80% to 90% are rated four stars (excellence)
- Plans that meet more than 90% of criteria receive five stars (superior standard)

ESG Retirement Plan Certification offers many benefits

For employer-sponsored retirement plans, a growing interest in ESG presents unique opportunities and challenges. Among the opportunities, Voya research found that 73% of Americans find the idea of ESG through a retirement plan appealing, translating to potentially better participation and employee retirement outcomes, and ultimately contributing to overall employee satisfaction and engagement.⁵

Among the challenges, plan sponsors need to ensure that plan options and design reflect the changing preferences of their employees while continuing to meet their fiduciary requirements under ERISA, which protects the interests of plan participants and their beneficiaries.

Although nearly 80% of global asset managers incorporate qualitative or quantitative ESG factor assessments into their investment process, plan sponsors have been reluctant to add funds that explicitly follow an ESG mandate because of regulatory concerns.⁶

Employer benefits of ESG Plan Certification

Risk mitigation:

Reduce exposure to regulatory challenges, litigation and other threats.

Employee desirability:

Attract employees to plans with a commitment to serving their local and global community.

Plan economics:

Derive return on investment from the retention and quality of employees.

Institutional recognition:

Leverage the visible commitment to ESG for your institution.

Ready documentation:

Document plan quality and rationale for decisions and activities via certification.

8 ⁵ Voya Consumer Insights and Research, Consumer Sentiment During COVID-19, July 2020.

⁶ Russell Investments, 2020 ESG Manager Survey, October 2020.

In 2020, the Department of Labor (DOL) ruled plan sponsors must focus on the financial interests of plan participants rather than “non-pecuniary goals.” ([Read Voya’s comments on the proposed rule.](#)) This rule likely led to slower ESG adoption. In fact, fewer than 5% of defined-benefit plans have at least one sustainable fund in their lineup, according to Morningstar.⁷ However, the DOL published proposed amendments to these rules regarding fiduciary “investment duties” on October 13, 2021. ([Read DOL issues proposed regulations on fiduciary investment duties.](#)) According to the DOL, the proposed rule would remove barriers to plan fiduciaries’ ability to consider climate change and other environmental, social and governance factors when they select investment and exercise shareholder rights. ([Read Voya’s comments on the proposed rule.](#))

While DALBAR’S ESG Plan Certification focuses on plan design and management, its overlap with ERISA—and assessment of plan governance—helps reduce exposure to regulatory challenges.

Furthermore, the certification process offers employers an unbiased, third-party assessment of their plan through the lens of ESG. This can be an invaluable tool for optimizing plan design and administration, improving employee communication and support and demonstrating a commitment to ESG values. This can translate to higher participation rates, higher contribution rates and enhanced retirement outcomes for employees.

Advisor/consultant benefits of ESG Plan Certification

Validation:

A third-party ESG assessment and certification can validate the good work advisors/consultants do for plan sponsors.

ESG roadmap:

Certification provides a roadmap for considering ESG in a retirement plan.

Potentially enhanced retirement outcomes:

The combination of greater participation with higher contribution rates may lead to greater retirement security for more participants.

Integration of ESG into your business:

Certification enables easier integration of ESG considerations into your business practice and value-add for plan sponsors.

⁷ Morningstar, Re-Envisioning ESG in 401(k) Retirement Plans. <https://www.morningstar.com/articles/1037056/re-envisioning-esg-in-401k-retirement-plans>.

ESG integration and certification can mean better employee outcomes

ESG Retirement Plan Certification helps address many factors that directly and indirectly influence employee plan participation, and ultimately employee retirement outcomes.

“There are four goals of our ESG certification: spot issues before they become problems; make cost-effective plan enhancements; gain public and internal recognition of the achievement; and enhance recruitment of talented candidates,” notes Louis Harvey, president and CEO of DALBAR, Inc.

The certification process itself is designed to identify weaknesses or potential areas of improvement that directly impact employee contributions and investment outcomes. These include everything from communication channels (environment) and matching contribution amounts (social) to investment choices and fees (governance).

Moreover, certification can offer an additional vote of confidence for employees to prioritize plan contributions, providing an unbiased and transparent assessment of the underlying plan along a standard set of best practice measures.

In a Voya survey, 60% of participants said they are likely to contribute more to an ESG-certified retirement plan.⁸

How employees can benefit from ESG Plan Certification

Increased participation:

Studies have shown that applying ESG principles to a retirement plan can increase participants' likelihood of participating in or contributing to that plan.⁹

Higher contribution rates:

Studies have shown that applying ESG principles to a retirement plan can increase participants' likelihood of contributing more to that plan.⁹

Enhanced retirement outcomes:

The combination of greater participation with higher contribution rates may lead to greater retirement security for more participants.

Improved employee satisfaction:

Participants who value the fact that their plan is environmentally responsible, socially conscious and prudently governed can derive a personal benefit.

10 ⁸ Voya Consumer Insights and Research, July 2020.

⁹ DALBAR, Inc., Financial Success Drivers of DC Plans (2020).

How to attain ESG Plan Certification

Once the plan sponsor confirms interest in attaining ESG Plan Certification, the process steps involved are as follows:

1. The recordkeeper and plan sponsor meet with DALBAR to review the assessment process, contract and pricing.
2. DALBAR sets up the contract directly with the plan sponsor.
3. The recordkeeper or plan sponsor creates a profile in DALBAR's online portal.
4. The recordkeeper collects supporting data.
5. The recordkeeper or plan sponsor enters the data into the DALBAR online portal.

From start to finish, evaluations take two to four weeks, after which a preliminary report is provided to the plan sponsor.

Conclusion

At Voya, our corporate values and business practices are aligned with ESG principles. As part of that commitment, we have integrated ESG into our own retirement plans, and we support our industry-leading clients in providing their employees with ESG options.

ESG Retirement Plan Certification represents an opportunity for employers of all sizes to not only assess and improve their retirement plans, but also show a broader commitment to sustainable business practices.

Reach out to your Voya relationship manager to learn more about DALBAR's ESG Retirement Plan Certification and consider next steps for beginning the certification process.



All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss. Environmental, Social and Governance (ESG) risk has factors that may cause the portfolio to forgo certain investment opportunities and/or exposures to certain industries, sectors or regions.

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